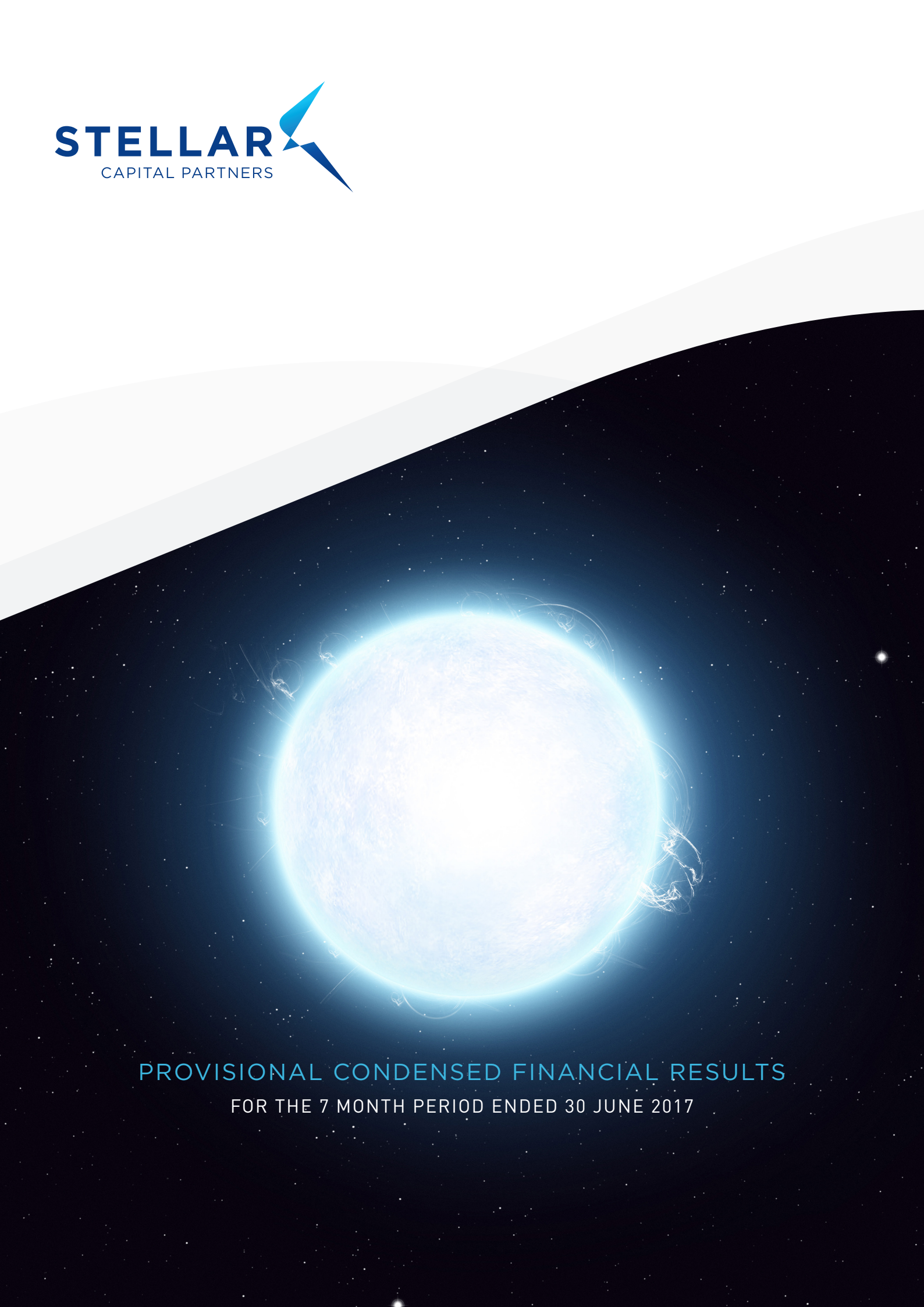
STELLAR
CAPITAL PARTNERS



PROVISIONAL CONDENSED FINANCIAL RESULTS

FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2017

STELLAR
CAPITAL PARTNERS

STELLAR CAPITAL PARTNERS LIMITED Incorporated in the Republic of South Africa

(Registration number 1998/015580/06) | Share code: SCP | ISIN: ZAE000198586

OPERATIONAL UPDATE

INTRODUCTION

Stellar Capital Partners Limited ("Stellar Capital", the "Company" or the "Group") presents its provisional results for the 7 month period ended 30 June 2017.

HIGHLIGHTS: 7 MONTH PERIOD ENDED 30 JUNE 2017

- Stellar Capital's net asset value per share at 30 June 2017 is R1.29
- This represents a decrease in NAV per share of 22.2% compared to a NAV per share of R1.66 as at 30 November 2016
- Unrealised fair value losses in relation to the Group's investment in Torre Industries (R276.7 million) and Tellumat (R60.8 million) predominantly contributed to the decline in NAV per share during the period under review
- The Group successfully concluded the acquisition of 48.82% of Prescient which now represents the Company's single largest investment by Rand value (R697 million, 2016: Rnil)
- Amecor delivered normalised EBITDA growth of 12% in respect of its financial year ended 31 March 2017 and is positioned to continue its growth trajectory in the forthcoming financial year
- The Board is actively considering several options in relation to the optimisation of the Group's capital structure
- Strategic and operational review underway to finalise long-term focus

COMMENTARY

INVESTMENT MANAGEMENT

Prescient

The Group successfully concluded the acquisition of a 48.82% stake in Prescient's financial services operations during March 2017 for a total consideration of R697 million. The investment, now Stellar Capital's largest by carrying value, has performed satisfactorily. Prescient Investment Management's assets under management at 30 June 2017 is currently R82.9 billion, representing an increase from the previous financial year (March 2016: R74.2 billion). Prescient's assets under administration increased from R174.7 billion at 31 March 2016 to R222.7 billion at 30 June 2017, of which 7.4% are offshore assets.

Cadiz

Continued improved investment performance has assisted the Cadiz investment management team in stabilising the level of assets under management during the period of R7.2 billion. Whilst the business is not yet fully optimised with costs high relative to the size of operations, Stellar Capital continues to work alongside Cadiz in the implementation of deliberate cost-rationalisation and BBBEE equity plans, which it believes will yield results in the forthcoming financial year. A long-term incentive scheme was also implemented during the reporting period with key Cadiz management team members participating in a 10% equity stake in the business. During the period under review, Cadiz disposed of its corporate finance operations, Cadiz Corporate Solutions.

SPECIALTY FINANCE

Praxis

During the period under review, Praxis took a strategic decision to exit its lower margin, working capital-intensive invoice factoring operations in favour of higher margin, less capital-demanding part funding operations. Praxis has entered into a strategic partnership with Mettle to assist with invoice factoring solutions to Praxis' existing client base. Growth in the parts funding operations has been significantly slower than expected. As at 30 June 2017, Stellar Capital still holds 60% of the ordinary shares. A capital restructuring is under consideration to reduce the weighted average cost of capital.

Integrated Equipment Rentals

Integrated Equipment Rentals continued to grow its rental book to R40.4 million during the period, which yields an average return of 22% per annum. Despite this growth, efforts to reduce the weighted average cost of capital, currently solely equity funded by a subsidiary of Stellar Capital, have been unsuccessful, albeit that management continue to engage various parties in this regard.

Stellar Credit

Continued AUM growth in the Inyosi Enterprise Development and Supplier Development Fund offerings, now with AUM of R203.5 million, and stable investment performance from Stellar Specialised Lending ("SSL"), has contributed to Stellar Credit, the management company of Inyosi and SSL, delivering improved performance during the period under review.

With effect from 31 May 2017, SSL standardised its capital structure. Simultaneously, Stellar Capital reorganised the manner in which it invests in SSL by subscribing for a preference share in Cadiz Asset Management Proprietary Limited ("CAM") with a face value of R290.1 million, the proceeds of which were invested in SSL. During June 2017, CAM instructed the part-redemption of its investment to the value of R90 million which was distributed to Stellar Capital as a return of capital, effectively reducing Stellar Capital's indirect investment in SSL to R200.1 million at the reporting date.

INDUSTRIALS

Torre

Trading conditions within the markets in which Torre operates have been extremely challenging although the company noted a marked improvement in the second half of the financial year as a result of increased operational efficiencies. Cost-containment strategies in the Capital Equipment segment and operational improvements strategies in the Parts and Components segment are however starting to yield some positive results. As a result of the depressed state of the mining and exploration industries, Set Point Laboratories in the Analytical services division was restructured, resulting in significant performance improvement in the second half of the financial year. The strategic acquisitions, albeit small relative to the market capitalisation of Torre, of Top Class Automotive and Transformer Chemistry Services serve to highlight that some opportunities are available within the broader industry. As a result of macroeconomic challenges, Torre impaired assets of R456 million during the year which mainly includes goodwill, rental assets, and property, plant and equipment. Following the initial receipt of proceeds from the disposal of Kanu and the operating division Reng/GoPro, Torre voluntarily repaid R50 million of term debt and its full overdraft balance and ended the financial year in a net cash position of R24 million. Torre's balance sheet is now in a strong position for future acquisitions and organic growth initiatives.

Amecor

Amecor delivered normalised EBITDA growth of 12% in respect of its financial year ended 31 March 2017 (2017: R52.3 million, 2016: R46.9 million) and is positioned to continue its growth trajectory in the forthcoming financial year. The business is executing various operational improvement plans, including the appointment of a new COO to focus on the optimisation of manufacturing operations, as well as inorganic growth strategies to broaden its service offering within the security industry.

Tellumat

Tellumat's annualised group profits from operations before depreciation and amortisation continued its weakened trend. The Group has, however, expended a significant amount on research and development during the current year (2017: R19.8 million, 2016: R8 million, 2015: R5 million) in order to bolster the group's product and service offerings and which has detracted from current year performance. In addition to this, the manufacturing division is well placed to capitalise on the possible resumption of the government set-top box project.

OUTLOOK

Stellar Capital is currently fully invested with its portfolio weighting, based on current fair value estimates, being fairly equally balanced between its financial services portfolio and industrials portfolio. Despite the significant challenges experienced by Torre and Tellumat, Stellar Capital remains supportive of management teams and will work alongside them to add value in its industrial portfolio. The nature of the operations of Prescient and Amecor as less cyclical, more cash generative investments, are expected to improve the Group's ability to weather the challenges presented. The Board and management are currently undergoing a strategic and operational review which will determine the long–term focus to improving shareholder returns and efficient allocation of capital, underpinned by an optimal capital structure.

As the 31 May 2019 maturity date of the Group's preference share and 30 December 2017 maturity date of the Group's bridge funding arrangements near, the Board is actively engaging its shareholders, funders and other stakeholders to secure a sustainable capital structure for the Group, which will form a key strategic initiative in the next financial year.

OPERATIONAL UPDATE (Continued)

RESIGNATION OF CHIEF FINANCIAL OFFICER

Shareholders are advised that Mr. Charl de Villiers, Chief Financial Officer and executive director, has tendered his resignation from the Company to pursue other interests. Mr. de Villiers has agreed to continue in the role as Chief Financial Officer and executive director until 30 September 2017.

The board has appointed Mr. Sean Graham CA(SA), RA, ACMA as interim Chief Financial Officer and executive director, who will be supported by Mr. David Hoek CA(SA), with effect from 1 October 2017. Mr. Graham currently serves as Company Secretary and Chief Risk Officer and Mr. Hoek serves as Group Financial Manager. The process to appoint a permanent Chief Financial Officer is underway and the outcome thereof will be announced in due course.

OTHER CHANGES TO THE BOARD OF DIRECTORS

Mr. HC Steyn was appointed as a non-executive director with effect from 4 April 2017. Mr. CE Pettit has resigned as Chief Executive Officer from the Board of Directors with effect from 31 August 2017 and is to be replaced by Mr. PJ van Zyl with effect from 1 September 2017.

INVESTOR RELATIONS

For any questions or comments relating to this announcement, shareholders are invited to send an email to scp.ir@fticonsulting.com.

SUM-OF-THE-PARTS ("SOTP") VALUATION AS AT 30 JUNE 2017

R'000	% of portfolio	As at 30 June 2017	As at 30 November 2016
FINANCIAL SERVICES			
Prescient	34%	697 015	-
Cadiz	4%	86 862	89 362
Praxis [1]	1%	29 671	139 621
IE Rentals [1]	0%	-	51 384
Stellar Credit	0%	8 802	7 934
INDUSTRIALS AND TECHNOLOGY			
Torre	21%	435 142	709 478
Amecor	17%	359 708	359 708
Tellumat [2]	10%	178 331	239 182
CORPORATE ASSETS			
Financial assets [1]	1%	24 707	25 046
Loan portfolio [1]	10%	200 140	302 119
Venture capital portfolio [3]	1%	28 195	30 299
Cash and cash equivalents	1%	13 554	382 854
Other assets	0%	7 993	13 107
Total assets		2 070 120	2 350 094
Preference share liability		(569 112)	(565 652)
Bridge facility		(100 000)	-
Trade and other payables		(12 341)	(15 829)
SOTP value		1 388 667	1 768 613
Net shares in issue ('000)		1 075 032	1 068 017
SOTP value per share (Rand)		1.29	1.66
SOTP value per share post preference share conversion (Rand) [4]		1.52	1.82

Notes:

[1] On 31 May 2017, Stellar Capital reorganised the manner in which it invests in the loan portfolio held by Stellar Specialised Lending ("SSL") through the acquisition of a financial instrument issued by Cadiz Asset Management Proprietary Limited (refer to note 8), which bears exposure to the SSL loan portfolio on a pro-rata basis with all other investors. As such, the exposure of the loans owing by Praxis and IE Rentals to SSL is not solely borne by Stellar Capital and therefore the SOTP values as at 30 June 2017 do not include the value of these loans, but only the respective equity fair values. The comparative period SOTP values (i) in relation to Praxis comprise R29.6 million equity and R110 million pro-rata loan exposure via SSL and (ii) in relation to IE Rentals comprise R5.7 million equity and R45.6 million pro-rata loan exposure via SSL

[2] The value comprises the sum of the investments in Tellumat and Masimong Technologies

[3] Held in Stellar International

[4] The conversion assumes an issuance of a maximum 215.8 million ordinary shares at R2.78 per share in settlement of convertible preference share funding

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

R'000	Notes	Audited as at 30 June 2017	Audited as at 30 November 2016
Non-current assets		2 049 590	1 954 277
Listed investments at fair value	7	435 142	709 478
Unlisted investments at fair value	7	1 588 724	1 219 609
Other financial assets	8	24 531	23 864
Property, plant and equipment		993	1 108
Deferred taxation		200	218
Current assets		20 530	395 817
Other financial assets	8	176	1 182
Loans to portfolio companies		2 385	4 622
Current tax receivable		103	-
Trade and other receivables		4 312	7 159
Cash and cash equivalents		13 554	382 854
Total assets		2 070 120	2 350 094
Equity		1 388 667	1 768 613
Ordinary share capital	9	2 347 806	2 336 149
Preference share capital		32 044	32 044
Accumulated loss		(991 183)	(599 580)
Non-current liabilities		514 657	506 465
Preference share liability		514 657	506 465
Current liabilities		166 796	75 016
Preference share liability		54 455	59 187
Bridge facility	10	100 000	-
Current tax payable		-	900
Trade and other payables		12 341	14 929
Total equity and liabilities		2 070 120	2 350 094

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2017

R'000	Notes	Audited 7 month period ended 30 June 2017	Audited year ended 30 November 2016
Fair value adjustments	11	(895 923)	(748 503)
Fair value adjustments on listed investments		(276 768)	(404 071)
Fair value adjustments on unlisted investments		(69 457)	92 529
Fair value adjustments resulting from capital distributions		(549 698)	(436 961)
Dividend revenue	12	579 742	480 025
Capital distributions		549 698	436 961
Earnings distributions		30 044	43 002
Other dividend revenue		-	62
Interest revenue	13	10 214	98 188
Impairment of loan to portfolio company		-	(2 289)
Gross loss from investments		(305 967)	(172 579)
Other income		1 024	8 870
Finance costs	14	(50 091)	(71 543)
Net loss before operating expenses		(355 034)	(235 252)
Management fee		(6 280)	(11 129)
Operating expenses		(11 691)	(15 837)
Transaction costs		(18 085)	(21 306)
Loss before tax		(391 090)	(283 524)
Taxation		(513)	(25 990)
Loss for the period		(391 603)	(309 514)
Weighted number of shares in issue ('000)		1 072 433	942 745
Loss and headline loss per share		(36.52)	(32.83)

The issue of 600 convertible redeemable preference shares has not been treated as dilutive in calculating diluted earnings and headline earnings per share as the conversion thereof will result in a decrease in loss per share (i.e. the conversion is anti-dilutive). As such, loss and headline loss per share is equivalent to diluted loss and headline loss per share.

There are no items required to be excluded from earnings in order to calculate headline earnings for the current and comparative periods and as such the headline earnings per share is equivalent to the earnings per share in respect of each period.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2017

R'000	Notes	Audited 7 month Period ended 30 June 2017	Audited year ended 30 November 2016
Balance at the beginning of the period		1 768 613	1 882 021
Loss for the period		(391 603)	(309 514)
Issue of shares	9	11 709	198 485
Capitalisation of share issue costs	9	(52)	(223)
Acquisition of treasury shares		-	(20 566)
Disposal of treasury shares		-	18 410
Balance at the end of the period		1 388 667	1 768 613

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 7 MONTH PERIOD ENDED 30 JUNE 2017

R'000	Audited 7 month Period ended 30 June 2017	Audited year ended 30 November 2016
Operating activities	553 820	318 712
Cash generated from operations and capital distributions received	545 104	239 010
Interest revenue	10 214	98 188
Tax paid	(1 498)	(18 486)
Investing activities	(976 437)	(747 458)
Net acquisitions of investments	(977 887)	(565 607)
Net disposals of other financial assets	233	324 872
Net loans repaid by / (advanced to) portfolio companies	1 237	(505 469)
Purchase of property, plant and equipment	(20)	(1 254)
Financing activities	53 317	13 840
Proceeds from ordinary share issue	-	88 998
Share issue costs	(52)	(223)
Purchase of treasury shares	-	(20 566)
Net proceeds from bridge facility	100 000	-
Preference share financing costs	(39 513)	(54 369)
Bridge facility financing costs	(7 118)	-
Cash and cash equivalents at the beginning of the period	382 854	797 760
Cash and cash equivalents at the end of the period	13 554	382 854
Net decrease in cash and cash equivalents	(369 300)	(414 906)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Stellar Capital is a South African domiciled investment holding company listed on the main board of the JSE Limited ("JSE"). The condensed consolidated financial statements of the Group as at and for the 7 month period ended 30 June 2017 comprise the Company and its Consolidated Subsidiary, Stellar Management Services Proprietary Limited.

The Company has significant interests in both listed and unlisted investments, which are more fully set out in note 7. As an investment holding company, Stellar Capital has applied the investment entity exception and accounts for its investments on a fair value basis, in accordance with IFRS 10 Consolidated Financial Statements.

2. FINANCIAL PREPARATION AND REVIEW

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including the disclosure requirements of IAS 34 Interim Financial Reporting ("IAS 34") and comply with the Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the JSE Listings Requirements and the Companies Act, No 71 of 2008.

The results include, as a minimum, the information required by IAS 34 and do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding to the changes in the Group's financial position and performance. In order to obtain a full understanding of the nature of the auditor's engagement, users should obtain a copy of the auditor's report, together with the accompanying financial information, from the Company's registered office.

These condensed consolidated financial statements have been prepared by DJ Hoek CA(SA) under the supervision of CB de Villiers CA(SA), the Chief Financial Officer and are not themselves audited.

The unmodified audit opinion of the auditors, Grant Thornton Cape Inc. in respect of the consolidated financial statements of the Group as at and for the 7 month period ended 30 June 2017 is available for inspection at the Company's registered office.

These condensed consolidated financial statements were approved by the Board of Directors on 30 August 2017. The directors take full responsibility for the preparation of these results, which have been correctly extracted from the audited financial statements of the Group.

3. ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those applied in the consolidated annual financial statements for the year ended 30 November 2016.

All subsidiaries classified as portfolio investments are accounted for at fair value through profit or loss ("FVTPL") in terms of IAS 39 Financial Instruments: Recognition and Measurement and all associates classified as portfolio investments are accounted for at FVTPL in terms of the exemption from applying the equity method of accounting provided in IAS 28 Investments in Associates and Joint Ventures.

4. JUDGMENTS AND ESTIMATES

Management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the year ended 30 November 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. SEGMENT INFORMATION

As the Group has only one business segment which is managed as a single pool of capital irrespective of the sector in which the Group's investees trade, segmental reporting is not applicable.

6. DIVIDENDS

No ordinary dividends were declared during the 7 month period ended 30 June 2017. Preference share dividends are based on 95% of prime on preference share capital of R600 million. Of the preference share dividends of R59.1 million payable in the previous year, R4.7 million remained unpaid as at 30 November 2016 and was paid in December 2016. Preference share dividends for the 7 month period ended 30 June 2017 of R34.7 million were paid on 30 June 2017, which included a payment to Mr. CJ Roodt, an independent non-executive director of Stellar Capital, of R0.9 million.

7. INVESTMENTS AT FAIR VALUE

All subsidiaries and associates have a principle place of business in South Africa with the exception of Stellar International, which has a principle place of business in Mauritius.

Listed investments

ENTITY	NATURE OF OPERATIONS	% HELD 30 JUNE 2017	% HELD 30 NOVEMBER 2016
Torre	Industrial group that distributes and rents capital equipment and supplies aftermarket parts to the mining, manufacturing, construction and industrial markets across Africa	57%	55%
MRI	Processing and screening of coal fines, a South African by-product of coal mining – currently under care and maintenance	14%	34%

Unlisted investments

ENTITY	NATURE OF OPERATIONS	% HELD 30 JUNE 2017	% HELD 30 NOVEMBER 2016
Prescient	Diversified financial services group offering investment management, fund services, administration, stockbroking, wealth investment, retail and institutional and insurance products	49%	-
Cadiz [1]	Financial services group specialising in institutional and personal investments	100%	100%
Praxis	Provider of short term finance to the panel beating industry to address motor body repairers' working capital needs	60%	60%
IE Rentals	Specialised ICT Asset Finance Solutions	50%	50%
Stellar Credit	Provision of management services	100%	100%
Amecor	Technology solutions and services in security	100%	100%
Tellumat	Technology solutions and services in manufacturing, air traffic control systems, defence and security and turnkey infrastructure solutions for the telecommunications industry	49%	49%
Masimong Technologies	A subsidiary of a diversified BBBEE investment holding company and BBBEE partner of Stellar Capital for Tellumat	100% preference shares [2]	100% preference shares [2]
Stellar Specialised Lending	Credit fund specialising in mezzanine financing	100%	100%
Stellar International	Holding company for international venture capital investments	100%	100%
CAM preference share	Preference share investment in a subsidiary of Cadiz	Sole preference share	-

[1] The operational entities within the Cadiz group were previously subsidiaries of Cadiz Holdings Proprietary Limited, but since June 2017 are subsidiaries of Cadiz Asset Management Holdings Proprietary Limited. Both Cadiz Holdings Proprietary Limited (100% held) and Cadiz Asset Management Holdings Proprietary Limited (90% held) are held via Friedshelf 1678 Limited, a 100% held subsidiary of Stellar Capital.

[2] The preference shares held in Masimong Technologies are non-cumulative and redeemable at the instance of the issuer.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

R'000	Balance as at 30 November 2016	Acquisitions / additions	Proceeds from disposals	Realised gains	Unrealised (losses)/gains	Fair value adjustments resulting from capital distributions	Balance as at 30 June 2017
Listed	709 478	2 432	-	-	(276 768)	-	435 142
Torre	709 478	2 432	-	-	(276 768)	-	435 142
MRI	-	-	-	-	-	-	-
Unlisted	1 219 609	988 164	-	-	(69 351)	(549 698)	1 588 724
Prescient	-	697 015	-	-	-	-	697 015
Cadiz	89 362	1 000	-	-	-	(3 500)	86 862
Praxis	29 671	-	-	-	-	-	29 671
IE Rentals	5 693	-	-	-	(5 693)	-	-
Stellar Credit	7 934	-	-	-	868	-	8 802
Amecor	359 708	-	-	-	-	-	359 708
Tellumat	124 309	-	-	-	(37 105)	-	87 204
Masimong Technologies	114 873	-	-	-	(23 746)	-	91 127
Stellar Specialised Lending	457 760	-	-	-	(1 571)	(456 189)	-
Stellar International	30 299	-	-	-	(2 104)	-	28 195
CAM preference share	-	290 149	-	-	-	(90 009)	200 140
Total	1 929 087	990 596	-	-	(346 119)	(549 698)	2 023 866

Torre Industries Limited ("Torre")

Stellar Capital acquired an additional 1 271 801 ordinary shares in the period under review, which was settled by way of the issue of 1 589 751 ordinary shares in the Company at R1.53 per share.

The investment has been valued at the closing quoted market price of R1.49 per share on 30 June 2017 (R2.44 per share on 30 November 2016).

Mine Restoration Investments Limited ("MRI")

In December 2016, Stellar Capital disposed of its claims against MRI for R0.9 million and 162 912 103 shares in MRI for no consideration. The loss on disposal of R13 million was recognised in previous financial years through negative fair value adjustments. As a result of the disposal, Stellar Capital reduced its shareholding in MRI from 34% to 14%.

Due to the suspension of trading of MRI shares on the JSE, management does not consider the quoted market price to be representative of fair value and has therefore not used the last traded closing quoted market price of 3 cents per share. Management has estimated a Rnil fair value in respect of the investment (2016: Rnil) due to operations still being under care and maintenance as at 30 June 2017 in conjunction with the previously anticipated strategic stake in Iron Mineral Beneficiation Services Proprietary Limited not materialising.

Prescient Holdings Proprietary Limited ("Prescient")

A 48.82% shareholding in Prescient was acquired for R697 million on 7 March 2017 and was settled by way of a cash payment of R687.7 million and the issue of 5 425 131 Stellar Capital shares at R1.71 per share.

As at 30 June 2017, the fair value of the investment in Prescient has been estimated by applying a sum-of-the-parts valuation to the underlying core operating units. These operating units have been valued primarily by applying a sustainable earnings model. The P/E multiples applied to each underlying business are dependent on the nature of the operations thereof. Where the sustainable earnings model is not considered to be the most appropriate valuation method, the underlying business has been valued using a percentage of assets under management ("AUM").

The significant unobservable inputs included in the sum-of-the-parts valuation of Prescient are:

- P/E multiple: 8 – 15 times
- Estimated percentage of AUM applied to relevant entities: 3% - 5%

Friedshelf 1678 Limited ("Cadiz")

In June 2017, the Cadiz group structure was reorganised such that the operational entities of Cadiz Holdings Proprietary Limited became subsidiaries of Cadiz Asset Management Holdings Proprietary Limited, a 90% held subsidiary of Stellar Capital, via Friedshelf 1678 (with the other 10% being held by a Cadiz employee share scheme). Cadiz Holdings Proprietary Limited is still a 100% held subsidiary of Stellar Capital, but does not have any operations. As part of this restructuring, Stellar Capitalised a loan of R1 million to Cadiz.

As at 30 June 2017, the value of the investment in Cadiz is supported by the estimated fair value of the major operating entities. Collectively, these entities are not yet in a sustainable profit-making position and therefore management does not consider a sustainable earnings multiple to be an appropriate valuation method. As such, management has used the consolidated NAV of these entities as the basis for the estimated fair value. The value of the investment represents a discount of 31% (2016: 35%) to 90% (2016:100%) of the consolidated NAV of R140.5 million (2016: R137.6 million) as per the latest financial accounts of Cadiz for the year ended 30 June 2017.

Praxis Financial Services Proprietary Limited ("Praxis")

As at 30 June 2017, the fair value of the investment in Praxis has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method.

Significant unobservable inputs/assumptions	2017	2016
Sustainable net profit after tax	R4.5 million	R4.5 million
P/E multiple	10.9 times	10.9 times
Average spot P/E multiple of listed peer group	12. 1 times	14.3 times
• Effective discount	-10%	-24%
Average 3-year trailing P/E multiple of listed peer group	12.9 times	11.5 times
• Effective discount	-16%	-5%

The reasonability of the estimated fair value of the investment has been tested by reference to a discounted cash flow model.

The Company has pledged and ceded in securitatem debiti to SSL the shares held in Praxis as a continuing general covering collateral security in respect of the amounts owed by Praxis to Stellar Specialised Lending.

Integrated Equipment Rentals Proprietary Limited ("IE Rentals")

In the previous financial year, the fair value of the investment in IE Rentals was estimated by management using the sustainable earnings model, which was considered to be the most appropriate valuation method. A P/E ratio of 10.9 times was used (which represented a discount of 24% to the listed peer group average of 14.3 times and a 5% discount to the 3-year trailing average of 11.5 times). The sustainable net profit after tax was previously estimated to be R1 million which assumed that, based on active management plans at the time of valuation, the portfolio company would operate under a refinanced capital structure.

As the anticipated refinanced capital restructure has not materialised, management considers it prudent to revise the valuation down to Rnil until such time as the weighted average cost of capital of the portfolio company can be reduced materially.

The Company has pledged and ceded in securitatem debiti to SSL the shares held in IE Rentals as a continuing general covering collateral security in respect of the amounts owed by IE Rentals to Stellar Specialised Lending.

Stellar Credit Proprietary Limited ("Stellar Credit")

As at 30 June 2017, the fair value of the investment in Stellar Credit has been estimated by management using the sustainable earnings model which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method.

Significant unobservable inputs/assumptions	2017	2016
Sustainable net profit after tax	R0.8 million	R0.7 million
P/E multiple	10.7 times	10.6 times
Average spot P/E multiple of listed peer group	12.1 times	14.3 times
• Effective discount	-12%	-26%
Average 3-year trailing P/E multiple of listed peer group	12.9 times	11.5 times
• Effective discount	-17%	-8%

The reasonability of the estimated fair value of the investment has been tested by reference to a discounted cash flow model.

Amalgamated Electronic Corporation Limited ("Amecor")

As at 30 June 2017, the fair value of the investment in Amecor has been estimated by management using the sustainable earnings model which is consistent with the valuation method used in the previous financial year. Management considers the EV/EBITDA multiple to be the most appropriate valuation method.

Significant unobservable inputs/assumptions	2017	2016
Sustainable EBITDA	R50.6 million	R50.6 million
EV/EBITDA multiple used	7.1 times	7.1 times
Average spot EV/EBITDA multiple of listed peer group	8.8 times	6.7 times
• Effective (discount)/premium	-19%	5%
Average 3-year trailing EV/EBITDA multiple of listed peer group	8 times	7.3 times
• Effective discount	-11%	-3%

The reasonability of the estimated fair value of the investment has been tested by reference to a discounted cash flow model.

Tellumat Proprietary Limited ("Tellumat")

As at 30 June 2017, the fair value of the investment in Tellumat has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the EV/EBITDA multiple to be the most appropriate valuation method.

Significant unobservable inputs/assumptions	2017	2016
Sustainable EBITDA	R28.6 million	R35.2 million
EV/EBITDA multiple used	6.2 times	6.2 times
Average spot EV/EBITDA multiple of listed peer group	8.8 times	6.7 times
• Effective discount	-30%	-8%
Average 3-year trailing EV/EBITDA multiple of listed peer group	8 times	7.3 times
• Effective discount	-23%	-15%

Included in the 2016 valuation of Tellumat is estimated excess working capital of R37.6 million. The reasonability of the estimated fair value of the investment in Tellumat has been tested by reference to a discounted cash flow model.

Masimong Technologies Proprietary Limited ("Masimong Technologies")

As Tellumat is the only significant asset held by Masimong Technologies as at 30 June 2017, the fair value of the preference shareholding in Masimong Technologies has been determined with reference to its share of the estimated fair value of Tellumat (refer above for details of the valuation).

Stellar Specialised Lending Proprietary Limited ("Stellar Specialised Lending" or "SSL")

SSL is a credit fund and, as such, the investment is valued at the estimated net asset value of SSL, being primarily derived from the value of the loan portfolio (after any impairments) less liabilities. The loans advanced by SSL to the underlying borrowers are secured by cession and pledge of listed and unlisted shares as well as corporate guarantees.

During the 7 month period ended 30 June 2017, SSL declared capital distributions to Stellar Capital of R456.1 million, which resulted in negative fair value adjustments of same to the carrying value of the investment due to a reduction in NAV. In addition to the negative fair value adjustments as a result of capital distributions, SSL incurred restructuring costs of R1.5 million, which resulted in an unrealised fair value loss of same.

With effect from 31 May 2017, Stellar Specialised Lending standardised its capital structure by converting existing debenture notes held by its investors into B Units, comprising each a B Note and a B Share. Simultaneously, Stellar Capital reorganised the manner in which it invests in SSL by subscribing for a preference share in Cadiz Asset Management Proprietary Limited ("CAM") with a face value of R290.1 million, the proceeds of which were invested by CAM in B Units issued by SSL of the same value. During June 2017, CAM instructed the part-redemption of B Units to the value of R90 million which was distributed to Stellar Capital as a return of capital, effectively reducing Stellar Capital's indirect investment in SSL to R200.1 million at reporting date.

As at 30 June 2017, all equity of SSL had been distributed and as such, the direct equity investment has an Rnil fair value.

Stellar International Limited ("Stellar International")

Stellar International has a US Dollar functional currency. As at 30 June 2017, the fair value of the investment in Stellar International has been estimated by management using the price of recent investment valuation method. Management considers this to be the most appropriate valuation method as both of Stellar International's investments, LifeQ Global Limited (denominated US Dollars) and Tictrac Limited (denominated UK Pounds), are still in the early stages of development with no current earnings, no positive cash flows nor any anticipated short-term earnings. The respective acquisition prices, along with the balance of cash, have therefore been converted to Rands using the foreign exchange spot rates on 30 June 2017.

CAM preference share

Refer to disclosure regarding the investment in Stellar Specialised Lending (note 7) for details of the preference share subscription.

SSL is a credit fund and, as such, the investment in the CAM preference share is valued at the estimated net asset value of SSL, being primarily derived from the value of the loan portfolio (after any impairments) less liabilities. The loans advanced by SSL to the underlying borrowers are secured by cession and pledge of listed and unlisted shares as well as corporate guarantees.

Level 3 investments

With the exception of Torre, a listed entity, all portfolio companies are classified as Level 3. The Board of Directors has approved the valuation methodologies used by management for Level 3 investments. The Company receives reports from portfolio companies at each reporting date, either in the form of audited financial statements or unaudited management accounts. These are then used in the primary valuation techniques to determine fair value or in the secondary valuation techniques, which are used as a reasonability checks. The table below shows the reconciliation of Level 3 movements:

R'000	2017	2016
Opening balance	1 219 609	1 149 368
Additions	988 164	1 517 347
Disposals	-	(180 353)
Transfers to Level 1	-	(906 970)
Realised fair value gains	-	37 382
Unrealised fair value (losses)/gains	(69 351)	39 796
Fair value adjustments resulting from capital distributions	(549 698)	(436 961)
Closing balance	1 588 724	1 219 609

Transfers to Level 3 occur in instances where management assesses that the quoted market price of a listed investment is not representative fair value at the measurement date. Similarly, transfers from Level 3 occur where previously management assessed that the quoted market price of a listed investment was not representative of fair value, but where a change in factors results in management concluding that the quoted market price is considered to be an appropriate basis for estimating fair value.

The table below shows the sensitivity analysis of Level 3 investments as at 30 June 2017:

R'000	Significant unobservable inputs	Reasonable possible variation	Reasonable possible change
Prescient	P/E multiple	5%	29 583 – 34 712
	Percentage of AUM	1%	3 179
Cadiz	Discount to NAV	10%	12 651
Praxis	Sustainable earnings	10%	2 967
	P/E multiple	20%	5 934
Stellar Credit	Sustainable earnings	10%	880
	P/E multiple	10%	880
Amecor	Sustainable EBITDA	5%	17 985
	EV/EBITDA multiple	5%	17 985
Tellumat	Sustainable EBITDA	10%	8 720
	EV/EBITDA multiple	5%	4 360
Masimong Technologies	Sustainable EBITDA	10%	9 113
	EV/EBITDA multiple	5%	4 556
Stellar International	n/a	n/a	n/a
CAM preference share	n/a	n/a	n/a

The fair value of IE Rentals has been estimated to be Rnil as at 30 June 2017. Currently the portfolio company has a high weighted average cost of capital as a result of the average cost of debt being prime plus 11%. Under a refinanced capital structure assumption with an estimated average cost of debt of prime plus 5%, the fair value of the investment would be R4.1 million when using a consistent P/E multiple of 10.9 times.

Refer to note 10 for details of the cession and pledge of assets.

8. OTHER FINANCIAL ASSETS

R'000	2017	2016
South Easter fixed interest hedge fund	21 528	20 965
Retention funds	2 717	2 632
Fixed income annuities	462	1 449
Total	24 707	25 046
Non-current portion	24 531	23 864
Current portion	176	1 182
Total	24 707	25 046

Refer to note 10 for details of the cession and pledge of assets.

9. ORDINARY SHARE CAPITAL

The Company issued a total of 7 014 882 ordinary shares during the period under review. 5 425 131 ordinary shares were issued in respect of the acquisition of Prescient and 1 589 751 ordinary shares were issued in respect of an additional shareholding in Torre (refer to note 7).

'000	2017	2016
Shares in issue at the beginning of the period	1 068 017	925 456
Issue of shares for acquisitions	7 015	142 561
Shares in issue at the end of the period	1 075 032	1 068 017

R'000	2017	2016
Share capital at the beginning of the period	2 336 149	2 137 887
Issue of shares for acquisitions	11 709	198 485
Capitalisation of share issue costs	(52)	(223)
Share capital at the end of the period	2 347 806	2 336 149

10. BRIDGE FACILITY

R'000	2017	2016
Bridge facility	100 000	-

In order to finance a portion of the Prescient acquisition during February 2017, Stellar Capital entered into a bridge facility agreement with Rand Merchant Bank (a division of FirstRand Bank Limited) ("RMB") in the amount of R225 million, of which R22m was repaid in March 2017 and a further R103 million was repaid in June 2017. During June 2017, Stellar Capital entered into an addendum to the Bridge Facility Agreement, to extend the repayment date of the remaining R100 million outstanding under the bridge facility, to 30 December 2017 ("Bridge Extension"). The Bridge Extension was approved by a special majority of preference shareholders in accordance with the preference share offering circular ("Circular").

Primarily as a result of the Bridge Extension itself and due to an unrealised downward fair value adjustment in relation to the Torre investment, two financial covenants set out in the Circular, being the asset cover ratio and net asset value minimum threshold, have not been satisfied as at 30 June 2017. In anticipation of the non-satisfaction of the aforementioned financial covenants, Stellar Capital during June 2017 obtained waivers of compliance with all preference share financial covenants at 30 June 2017, from preference shareholders holding 581 of 600 preference shares (97%) or R581 million of R600 million, including RMB. The next preference share financial covenant measurement date is 31 December 2017.

As security for the bridge facility, Stellar Capital ceded in securitatem debiti and pledged the following:

- Shares in Prescient, Cadiz, Stellar Credit, Torre, Amecor, Tellumat, Stellar Specialised Lending and Stellar Management Services;
- Any shareholder or loan claims;
- Proceeds from insurances;
- Bank accounts;
- Trade and other receivables; and
- Any intellectual property rights.

Interest of 1-month JIBAR plus 2.75% is charged on the bridge facility (refer to note 14).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. FAIR VALUE ADJUSTMENTS

R'000	2017	2016
Fair value adjustments on listed investments	(276 768)	(404 071)
Unrealised losses	(276 768)	(404 071)
Fair value adjustments on unlisted investments	(69 457)	92 529
Realised gains – portfolio companies	-	37 382
Unrealised (losses)/gains – portfolio companies	(69 351)	53 822
Realised gains – other financial assets	15	1 930
Unrealised losses – other financial assets	(121)	(605)
Fair value adjustments resulting from capital distributions	(549 698)	(436 961)
Total	(895 923)	(748 503)

12. DIVIDEND REVENUE

R'000	2017	2016
Capital distributions of cash	549 698	276 708
Cadiz	3 500	42 208
Stellar Credit	-	2 500
Stellar Specialised Lending	456 189	232 000
CAM preference share	90 009	-
Capital distributions-in-specie	-	160 253
Cadiz	-	160 253
Earnings distributions	30 044	43 002
Torre	-	9 858
Amecor	6 000	-
Stellar Specialised Lending	24 044	33 144
Other dividends	-	62
Total	579 742	480 025
Capital distributions	549 698	436 961
Earnings distributions	30 044	43 002
Other dividends received	-	62
Total	579 742	480 025

13. INTEREST REVENUE

R'000	2017	2016
Loan investments	-	16 255
Other financial assets	864	2 260
Loans to portfolio companies	357	51 728
Cash and cash equivalents	8 993	27 945
Total	10 214	98 188

14. FINANCE COSTS

R'000	2017	2016
Preference share liability interest accrual	42 973	71 543
Bridge facility interest expense	7 118	-
Total	50 091	71 543

Interest on the preference share liability accrues at 115% of the prime interest rate and interest of 1-month JIBAR plus 2.75% is charged on the bridge facility.

15. RELATED PARTY TRANSACTIONS

Related party transactions are entered into in the ordinary course of business and comprise (i) transactions with portfolio companies, including loans advanced/repaid, interest income, dividends received and amounts received or paid in respect of services provided; and (ii) management fee expenses paid to Thunder Securitisations Proprietary Limited.

16. CONTINGENT LIABILITIES

At the reporting date, the Company has issued limited corporate guarantees in favour of the creditors of Praxis for R47.5 million (2016: R47.5 million). The guarantees will expire on 30 September 2017.

17. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors are not aware of any events after the reporting date and until the date of approval, which have a material impact on the financial statements as presented.

By order of the Board

DD Tabata
Chairman of the Board

31 August 2017

FORWARD-LOOKING STATEMENTS

Any forward-looking statements included in this results announcement involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Any reference to forecast information included in this results announcement does not constitute an earnings forecast and has not been reviewed or reported on by the Group's external auditors.

STELLAR
CAPITAL PARTNERS

DIRECTORS

DD Tabata (Chairman)*, CE Pettit (Chief Executive Officer),
CB de Villiers (Chief Financial Officer), MM Ngoasheng*,
L Potgieter*, CJ Roodt*, HC Steyn^, PJ van Zyl^, MVZ Wentzel*
^Non-executive
*Independent non-executive

COMPANY SECRETARY

Sean Graham

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